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Executive Secretary

6/24/83

Date

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United States Department of State

Washington, D.C. 20520

June 28, 1983

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Executive Registry

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TO:	OVP	- Mr. Donald P. Gregg
	NSC	- Mr. Robert Kimmitt
	Agriculture	- Mr. Raymond Lett
	AID	- Mr. Gerald Pagano
	CEA	- Mr. William Niskanen
	→ CIA	[Redacted]
	Commerce	- Mrs. Helen Robbins
	Defense	- COL John Stanford
	OMB	- Mr. Alton Keel
	OPD	- Mr. Edwin Harper
	Treasury	- Mr. David Pickford
	USTR	- Mr. Dennis Whitfield

SUBJECT: SIG-IEP Meeting on UNCTAD VI

Attached is the background paper for the SIG-IEP meeting on UNCTAD VI scheduled for Thursday, June 30, 1983 at 1:00 PM.

For Charles Hill
for Charles Hill
Executive Secretary

Attachment:

As stated

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SIG-IEP BACKGROUND PAPER

STATUS REPORT AND ISSUES AT UNCTAD VI

The SIG-IEP approved US positions and strategy for UNCTAD VI on May 13. Since the Conference began on June 6 our delegation has successfully maintained support of other OECD countries (the Group B caucus) for the basic US approach. Group B has not accepted developing country (Group of 77) proposals for sweeping economic changes and initiatives, but instead has tabled a series of counter proposals consistent with US positions. Deputy Secretary Dam's address to the Conference on June 13 provided a healthy dose of realism to LDC expectations for Conference results.

The wide gap between the Group B and G-77 positions, and relative inflexibility on both sides, has resulted in slow progress towards agreement on most substantive issues. The only items on which consensus has been reached are innocuous resolutions on landlocked and island developing countries and ECDC. Agreement seems near on technology issues. Although formal negotiations have ended in the four substantive committees (trade, commodities, money and finance, and basket) informal negotiations continue on many issues.

Although the Conference is scheduled to end on June 30, it may run on until Saturday morning, July 2. Some 40 G-77 ministers and several EC ministers (Lambsdorff of the FRG, France's Cheysson, and Parkinson of the UK) are arriving for the final hard bargaining. Our delegation indicates that it is still not possible to predict what the last days will produce.

The major issue for SIG-IEP consideration is to decide whether to issue additional instructions to the delegation covering the major controversial issues. As it now stands, the likely outcome in the last few days is that other Group B countries will agree under G-77 pressure to outcomes on a few important items which under present instructions our delegation will have to vote against. The topics on which this could occur include 1) the issue of achieving GATT/UNCTAD complementarity on work on trade in services (a positive US objective), 2) compensatory financing for LDC export earnings shortfalls, and 3) reference to an international conference on money and finance. We will also be under pressure to change our position on Common Fund ratification. Details on each of these issues is contained in the following summary of the status of the subject areas at the Conference.

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-2-

Money and Finance

Group B solidarity has held firm on all monetary, debt and development finance issues. Nevertheless, some members in the final rush may choose to side with G-77 formulations on some issues of high symbolic importance such as language urging that IDA-VII represent an increase (at least in nominal terms) over IDA-VI or referring to an international monetary conference.

Group B has tabled three resolutions: (1) official development assistance, multilateral financing and foreign direct investment; (2) external debt; and (3) international monetary arrangements. The situation on most money and finance issues -- debt, ODA, LLDCs, and MBI's -- is still fluid and evolving. It is not clear how the G-77 will respond to Group B resolutions. There are indications, however, that differences are narrowing on ODA and LLDCs, and prospects appear favorable that the US can support most of the language in combined resolutions on these issues.

There is only one money and finance issue which could arise which requires SIG consideration,

International Money and Finance Conference

India, as leader of the NAM, has been informally pushing the idea of reference to an international monetary conference. To date, however, the G-77 have not formally tabled any Indian-drafted resolution. So far the Williamsburg Summit countries have been united in opposing any such resolution. Nevertheless, as the conference draws to a close there could be last minute maneuvering by the Indians, and conceivably the French (Cheysson) to introduce the monetary conference concept.

If Group B or G-7 unity breaks down, we want to avoid any outcome that would expand the consultations on a possible Monetary Conference to include non-Summit country Finance Ministers. Current language now under consideration runs this risk, although our delegation points out that it is possible to draft language which avoids this problem. The SIG-IEP may need to consider, in the event we cannot retain Summit-country unity, whether the U.S. can accept a reference to Williamsburg-type language (in a bargaining situation) or whether to vote no on any reference to a money and finance conference.

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-3-

Commodities

The Conference Working Group on Commodities has four issues under consideration, three of which are close to agreement. We will be able to join a consensus on a resolution concerning the Integrated Program for Commodities although it will be necessary for the US to state a number of reservations. The impasse on processing, marketing and distribution issues is likely to lead to an unobjectionable, vaguely worded resolution but will not achieve our objectives in promoting LDC openness to trade and investment. The US will be able to support a hortatory resolution urging countries to ratify the Common Fund without delay along the lines of resolutions previously acceptable.

Apart from the Common Fund resolution, there remains the issue of whether the US should declare to the Conference its intention to submit the Common Fund Agreement to the Senate for ratification. Substantial pressure has been put on our delegation from many sources, including nearly all of the Group B countries, to declare our intention to submit the Fund agreement to the Senate for ratification. Japan's Foreign Minister Abe raised the subject with Secretary Shultz in Bangkok this week. Our Group B partners contend that the Fund can serve a useful economic function, would not be very expensive and would serve as evidence that the industrialized countries are concerned about the problems that commodity exporting LDCs face. US announcement of ratification intentions, we are being told, could have a favorable psychological effect on the Conference.

The most difficult issue is compensatory financing for commodity export earning shortfalls. The US must decide whether to associate itself with a Group B-proposed resolution which invites the Secretary-General of UNCTAD to convene an experts group to examine the economic impact of this form of financing on development and commodity markets, and whether there is a need for an additional facility. The draft resolution has the support of all Group B except the US. If the EC and the Nordics see that there is no chance of US support for the proposed Group B approach, they may, in our delegation's opinion, support a more objectionable G-77 proposal for intergovernmental discussion of a new complementary facility supported by an ambitious Secretariat work program. US, Canadian and Australian opposition will not be adequate to avoid adoption of the G-77 program.

Our delegation recommends, therefore, that the USG seriously consider support for the Group B text. However, if we decide to agree to formation of such an expert's group, we would first want to negotiate more acceptable terms of reference than now contained in the Group B draft.

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-4-

TRADE

Committee II (Trade) formally completed its work June 25 without agreement on any trade issues. The G-77 adhered rigidly to the text of its Buenos Aires resolution on trade. This rigidity facilitated Group B unity in support of its own resolution. Informal consultations are continuing, but because both sides have indicated only modest degrees of flexibility, no attempt has been made to draft a compromise text.

The G-77 spokesman (Amb. Das of India) is reportedly being held back from efforts at accommodation by the Latins, notably Venezuela, Argentina, Mexico, and Brazil. The Latins have a very strong attachment to the Buenos Aires text and a strong aversion to any positive references to GATT or to any implications that LDC trade regimes are not already optimal.

The only signs of wavering within Group B have been the Japanese. In their suggestions within Group B caucuses, they have shown a desire to go quite far in placating the LDCs, particularly with regard to the LDCs' role in resisting protectionism.

A major U.S. objective is the inclusion in any trade resolution of language which establishes complementarity between UNCTAD work on services and GATT work on services. Other Group B members agree on the desirability of complementarity language, but are almost certain to agree to a continuation of ongoing UNCTAD work on services with or without complementarity language.

The G-77 position is that the GATT Ministerial did not call for a work program in services (only an exchange of information among Contracting Parties), and that GATT covers only trade in goods. UNCTAD's broader mandate includes the role of services in development, they argue.

Group B unity has been facilitated not only by LDC unwillingness to acknowledge responsibility for market liberalizing actions of their own but also by EC awareness that the U.S. can be more accommodating than they in protectionism language, safeguards, and market transparency. We expect that the US will be able to maintain unity with Group B on the services issue. Nevertheless, there are scenarios under which Group B might accept an UNCTAD mandate for services at the expense of GATT. In this case, our delegation has been asked to call for a paragraph-by-paragraph vote.

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-5-

The World Economic Situation

Discussions at UNCTAD VI of the world economic situation are taking place under Agenda Item 8. The G-77, Group B and Group D have each tabled draft documents on this issue.

The G-77 document adheres closely to their view that there is a world economic crisis that must be resolved through immediate and specific measures by developed countries and through substantial restructuring of the world economy. The LDCs are not convinced that the economic recovery underway in major OECD countries will be sufficient to lift the LDCs out of their crisis situation.

Group D and China agree with the G-77 analysis of the world economy. However, Group D has emphasized disarmament and politically based trade embargoes.

Group B's position, so far, is that recovery has started and that the world economic system has evolved and will continue to meet the changing needs of the global economy. Assertions about crisis and the need for major restructuring of the world economy are overstated.

All groups have agreed that the final document should be short, non-technical and substantive, describing the recent economic situation, drawing conclusions on the need for action and recommending some suggested actions. It is not clear whether the document will serve as a major, separate "outcome" of the Conference or will only be a preamble to substantive resolutions. The G-77 believes that the substance of the Conference must be in the resolutions and that a political declaration on interdependence, cooperation and development is not a substitute. While Group B is reassuring the G-77 that we are not using a declaration as a way to avoid negotiating resolutions, the way is at least open to use the "Declaration on Recovery and Development" to mask meager Conference results. This will be possible if the G-77 reject confrontation and total failure and turn to the declaration as a saleable, positive outcome.

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Basket Items

As of June 27, consensus had been reached on two basket items: ECDC and Island and Land-Locked countries.

The US was forced, however, to reserve on the Land-Locked resolution in light of apparent unacceptable financial implications.

Resolutions on the remaining five items were referred to the President of the Conference for his disposition. Two items, technology and shipping, have been sent back to their respective drafting groups. Resolutions on East/South Trade, Assistance to National Liberation Movements and Institutional Issues are now being handled through a special negotiating arrangement set up by the Conference President. Reports were due back yesterday (6/27).

The following are thumb nail sketches of these issues:

Technology -- Still no agreement on preambular language or language on industrial property, transfer of technology strategy and pharmaceuticals. According to the delegation, there is reasonable prospect for agreement on all items.

Shipping -- Some progress. There seems to be confusion within the ranks of G-77 and it is too early to tell how this issue will resolve itself.

East/South Trade -- No significant movement in Committee IV plenary. The report to the President contained Group D and Group B language placing the blame for the breakdown on each other. Thus far, all parties are remaining firm in their position.

National Liberation Movements -- The Zimbabwean and Saudi delegations have approached the US delegation with drafts that in their estimation are moderate. Their intention is to avoid any votes on these issues and to seek consensus adoption of texts. There have been improvements in both texts but we still have problems. The delegation is guardedly optimistic concerning future work.

Institutional Issues -- Group B remains firm in opposition to the G-77 proposal which continues to emphasize the need to convert UNCTAD into a comprehensive trade organization (CTO), and which avoids any mention of housekeeping issues such as evaluation, transparency and financial accountability. In the delegation's opinion the likely outcome of this issue will be to refer it to the next TDB. This is acceptable to us.

There appears to be no issue within the basket that needs to be addressed at the SIG/IEP.

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